

Message Text

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TO SECSTATE WASHDC 0380

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TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 13886, MAY 30, 1975

1. SUMMARY. FOLLOWING EARLIER GOF MOVES TO ENCOURAGE INDUSTRIAL INVESTMENTS AND STIMULATE HIRING, FRENCH MONETARY AUTHORITIES HAVE MODERATELY EASED RESTRICTIVE POLICIES ON BANK LENDING AND RESERVE REQUIREMENTS. LATEST MOVES WILL PERMIT INJECTION OF MORE FUNDS INTO SAGGING FRENCH ECONOMY DURING SECOND HALF OF YEAR, AND AT LEAST LAY GROUNDWORK FOR HOPED-FOR AUTUMN REVIVAL. FOR FOURTH TIME IN 1975, FRENCH COMMERCIAL BANKS LOWERED LENDING RATES (WHICH NEVERTHELESS REMAIN AMONG HIGHEST IN EUROPE), FOLLOWING REDUCTION IN BANK OF FRANCE DISCOUNT RATE ON JUNE 6. BALANCE OF PAYMENTS
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FIGURES FOR FIRST QUARTER SHOW FF 1.1 BILLION DEFICIT

ON CURRENT ACCOUNT, ROUGHLY HALF THE DEFICIT REGISTERED
IN PRECEDING QUARTER. END SUMMARY.

2. GOF RELAXES GRIP ON CREDITS -- FRENCH MONETARY
AUTHORITIES MOVED DURING CURRENT WEEK TO EASE LONG-
STANDING CREDIT SQUEEZE. ON JUNE 11 FINANCE MINISTRY
ANNOUNCED CEILINGS ON BANK LENDING TO APPLY DURING
SECOND HALF OF YEAR; BASED ON LEVELS AT END DECEMBER
1974, BANKS AUTHORIZED TO INCREASE LENDING BY 12 PER-
CENT THROUGH END OF YEAR. (UNDER EXISTING RULES
INSTITUTED LAST DECEMBER, INCREASE IN CREDITS TO THE
ECONOMY DURING FIRST HALF 1975 LIMITED TO 5 PERCENT
OVER AVERAGE LEVEL FOR SECOND HALF 1974.) LENDING
RESTRICTIONS WILL CONTINUE TO BE WAIVED IN CASES OF
EXPORT CREDITS AND ENERGY-SAVING PROJECTS. BANKS AND
CREDIT INSTITUTIONS HAVE BEEN GOVERNED BY SPECIAL
RULES FOR SHORT-TERM EXPORT CREDITS (CURRENTLY LIMITED
TO 10 PERCENT GROWTH DURING FIRST HALF), BUT FINANCE
MINISTRY HAS GIVEN NO WORD OF FUTURE RESTRAINTS OF THIS
TYPE.

ACCORDING TO FINANCE MINISTRY, NEW CREDIT POLICY
REFLECTS GOF DESIRE TO MEET INDUSTRIAL CREDIT DEMAND
DURING ANTICIPATED AUTUMN REVIVAL, WHILE STILL AVOIDING
INFLATIONARY PRESSURES. ALTHOUGH 12 PERCENT CEILING
FOR END OF 1975 IS IDENTICAL TO THAT IN EFFECT AT END
OF 1974, MONEY-SUPPLY DATA FOR FIRST QUARTER (PARA 5
BELOW) SHOW CREDITS TO THE ECONOMY BELOW DECEMBER
LEVEL. MAXIMUM PERMISSIBLE LENDING THUS WORKS OUT TO
13 PERCENT INCREASE FROM SECOND THROUGH FOURTH QUARTERS,
TO SOME 643 BILLION FRANCS BY YEAR'S END.

ON JUNE 12, BANK OF FRANCE ANNOUNCED LOWERING OF
BANKS' MINIMUM RESERVE REQUIREMENTS AGAINST
DEMAND DEPOSITS, EFFECTIVE JUNE 21, FROM 15 TO 11
PERCENT. (COMPULSORY RESERVES AGAINST TIME DEPOSITS
WERE ABOLISHED AT FIRST OF YEAR.)
ABOUT FF 8 BILLION IN NON-INTEREST BEARING FUNDS,
DEPOSITED BY COMMERCIAL BANKS WITH THE CENTRAL BANK,
WILL BE FREED FROM OBLIGATIONS.

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3. BANK LENDING RATES DECLINE FURTHER -- FOR FOURTH
TIME THIS YEAR, FRENCH COMMERCIAL BANKS HAVE CUT THEIR
LENDING RATES FROM ALL-TIME PEAK LEVELS WHICH PREVAILED
THROUGHOUT SECOND HALF 1974. ON JUNE 10, BANKS BROUGHT
THEIR PRIME LENDING RATES DOWN TO 11.85 PERCENT FROM
12.35 PERCENT RATE IN EFFECT SINCE MID-APRIL. AT
SAME TIME, INTERBANK RATE FOR DAY-TO-DAY MONEY HAS

CONTINUED STEADY DECLINE FROM NEARLY 14.5 PERCENT IN
MID-1974 TO JUST OVER 7 PERCENT RECENTLY.

LATEST DROP IN BANK LENDING RATES CAME SHORTLY
AFTER JUNE 6 ANNOUNCEMENT BY BANK OF FRANCE THAT ITS
DISCOUNT RATE LIKewise BEING REDUCED, FROM 10 TO 9
PERCENT (SEE PARIS 14663). AS NOTED PREVIOUSLY, SUCH
CHANGES IN CENTRAL-BANK RATE PRIMARILY OF PSYCHOLOGICAL
IMPORTANCE ONLY, SINCE IT IS CUSTOMARILY AT TOP OF
FRENCH INTEREST RATE STRUCTURE, AND ORDINARILY BOF NO

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LONGER PROVIDES REFINANCING TO BANKS THROUGH DISCOUNT
WINDOW. WHAT THIS CHANGE DOES INDICATE IS GOF WILLING-

NESS TO COUNTENANCE SOME OVERALL RELAXATION IN CREDIT AND IN INTEREST RATES. DESPITE LATEST REDUCTIONS, FRENCH INTEREST RATES CONTINUE TO BE AMONG HIGHEST IN EUROPE.

4. CURRENT DEFICIT NARROWS SHARPLY IN FIRST QUARTER -- FRANCE'S BALANCE OF PAYMENTS ON CURRENT ACCOUNT REGISTERED 1.1 BILLION FRANC DEFICIT IN FIRST QUARTER 1975, ACCORDING TO PRELIMINARY FIGURES RELEASED JUNE 2 BY FINANCE MINISTRY. FIRST-QUARTER CURRENT DEFICIT WAS HALF THE SIZE OF THAT REGISTERED IN FOURTH QUARTER 1974, AND REPRESENTS DRAMATIC NARROWING FROM LAST UNCLASSIFIED

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YEAR'S AVERAGE QUARTERLY DEFICIT OF 7 BILLION FRANCS.

FRENCH BALANCE OF PAYMENTS

FIRST QUARTER 1975

(PRELIMINARY DATA, DOLLAR FIGURES AT FF 4.282 TO \$1.00)

	FF MIL.	\$ MIL.	
MERCH. TRADE BALANCE	850		L98
SERVICES, NET	700	163	
BAL. ON GOODS AND SERVICES	1,550		362
TRANSFERS, NET	-2,700	-630	
BAL. ON CURRENT ACCOUNT	-1,150		-269
LONG-TERM CAPITAL	1,950		455
BASIC BALANCE	800		187

SHARP IMPROVEMENT SHOWN IN MERCHANDISE TRADE ACCOUNT (INCLUDES "COURTAGE," OR THIRD-COUNTRY COMMODITY BROKERAGE ACTIVITIES), WHICH MOVED FROM FF 1.1 BILLION DEFICIT IN FOURTH QUARTER 1974 TO FF 0.8 BILLION SURPLUS IN FIRST QUARTER 1975. AS NOTED PREVIOUSLY, THIS TREND LINKED TO SLUMP IN FRENCH ECONOMY AND CONSEQUENT DECLINE IN IMPORT DEMAND; RECENT APPRECIATION IN FOREIGN-EXCHANGE VALUE OF FRANC HAS ALSO CONTRIBUTED BY HOLDING DOWN FRANC IMPORT VALUES. BALANCE ON SERVICES ALSO IN SURPLUS FOR FIRST QUARTER, REFLECTING NARROWING DEFICIT ON SHIPPING CHARGES PLUS INCREASING RETURNS FROM OVERSEAS CONSTRUCTION PROJECTS. PRIVATE AND OFFICIAL TRANSFERS SHOWED NET DEFICIT COMPARABLE TO THAT FOR FOURTH QUARTER 1974.

FINANCING OF CURRENT DEFICIT MORE THAN COVERED BY LONG-TERM CAPITAL INFLOWS, SO THAT BALANCE ON CURRENT ACCOUNT AND LONG-TERM CAPITAL (BASIC BALANCE) WAS IN SURPLUS FOR FIRST TIME IN NEARLY TWO YEARS. WITH ADDITION OF PRIVATE SHORT-TERM CAPITAL INFLOWS PLUS UNRECORDED TRANSACTIONS, BALANCE ON NON-MONETARY TRANSACTIONS SHOWED FF 4.2 BILLION SURPLUS (\$981 MILLION) FOR FIRST QUARTER. CHANGES IN SHORT-TERM ASSETS AND LIABILITIES OF BANKING SECTOR BROUGHT

OFFICIAL TRANSACTIONS BALANCE TO FF 2.4 BILLION SURPLUS
(\$560 MILLION). COMPLETE DATA ON BALANCE OF PAYMENTS
BY AIRGRAM ONCE DEFINITIVE FIRST-QUARTER FIGURES
RELEASED.

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5. MONEY SUPPLY SHOWS MODEST GROWTH IN FIRST QUARTER --
FRENCH MONEY SUPPLY, BROADLY DEFINED (M2), EXPANDED
IN MARCH TO 661.5 BILLION FRANCS, A 2.3 PERCENT
INCREASE FROM FF 646.4 BILLION AT END OF FEBRUARY.
CURRENCY AND DEMAND DEPOSITS (M1) ROSE 4 PERCENT TO
FF 354.6 BILLION AT END OF MARCH, WHILE NEAR-MONIES
INCREASED ONLY 0.5 PERCENT TO FF 306.9 BILLION. UNAD-
JUSTED DATA ON COMPOSITION OF MONEY SUPPLY BY SOURCE
SHOWED NET FOREIGN EXCHANGE RESERVES AT FF 39.6 BILLION
(UP 2 PERCENT FROM FEBRUARY); CLAIMS ON PUBLIC SECTOR
AT FF 69.5 BILLION (UP 5 PERCENT); AND CREDITS TO THE
ECONOMY AT FF 569.6 BILLION (UP 0.8 PERCENT). ON
SEASONALLY ADJUSTED BASIS, M2 INCREASED 0.5 PERCENT IN
MARCH TO FF 665.3 BILLION (M1 WAS UP NEARLY 2 PERCENT
TO FF 359.7 BILLION). DURING FIRST QUARTER 1975, M2
HAD GROWN AT SEASONALLY ADJUSTED ANNUAL RATE OF ONLY
7.6 PERCENT, COMPARED TO 1974 INCREASE OF NEARLY 18
PERCENT. HOWEVER, SUCH COMPARISON SOMEWHAT MISLEADING
SINCE REFERENCE MONTH (DECEMBER 1974) HAD REGISTERED
UNUSUALLY LARGE INCREASE IN MONEY SUPPLY; OVER FOUR
MONTHS FROM END NOVEMBER, M2 INCREASED AT 10.5
PERCENT ANNUAL RATE. DURING SAME PERIOD, CONSUMER
PRICES ROSE AT 10.7 PERCENT ANNUAL RATE.

6. REAL GROWTH WAS 3.5 PERCENT IN 1974 -- FRANCE'S
REAL GROSS INTERNAL PRODUCT INCREASED BY 3.5 PERCENT
DURING 1974, ACCORDING TO DEFINITIVE FIGURES ON ANNUAL
NATIONAL ACCOUNTS RELEASED ON JUNE 13 BY INSEE

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(NATIONAL STATISTICS INSTITUTE). FINAL GIP FIGURE SHOWED LESS GROWTH THAN HAD BEEN EXPECTED -- 4.5 PERCENT REAL GROWTH WAS CONSIDERED LIKELY AT CLOSE OF 1974 -- AND WAS WELL BELOW 5.7 PERCENT AVERAGE REAL GROWTH DURING PRECEDING 3 YEARS. (NOTE THAT GIP IN FRENCH NATIONAL ACCOUNTS DIFFERS FROM GNP, PRINCIPALLY THROUGH OMISSION OF SERVICES PERFORMED BY GOVERNMENT WORKERS AND DOMESTIC SERVANTS.)

IN 1974, REAL DISPOSABLE PERSONAL INCOME INCREASED BY 2.6 PERCENT (COMPARED TO AN AVERAGE 5.6 PERCENT FROM 1971 THROUGH 1973). HOWEVER, THE PROPORTION OF NATIONAL INCOME ACCOUNTED FOR BY HOUSEHOLD SECTOR INCREASED WHILE THAT BY INDUSTRY DECLINED, LEADING TO UNCLASSIFIED

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SHARP DECLINE IN RATE OF SELF-FINANCING BY BUSINESS.

OVERALL DEVELOPMENT OF FRENCH ECONOMY IN 1974 AS SKETCHED BY INSEE SHOWED STRONG EXPANSION IN FIRST QUARTER, SIGNS OF SLOW-DOWN IN SECOND, SHARP DROP IN DEMAND DURING THIRD, AND A "BOTTOMING-OUT" IN OUTLOOK AT END OF YEAR. DETAILS ON 1974 NATIONAL ACCOUNTS BY

AIRGRAM.

7. OTHER REPORTS SUBMITTED DURING THE PERIOD --

TELEGRAMS:

14663 BANK OF FRANCE LOWERS DISCOUNT RATE, JUNE 6, 1975

AIRGRAMS:

A-241 FRENCH FOREIGN EXCHANGE HOLDINGS, MAY 30, 1975

A-244 TRADE WITH COMMUNIST AREAS, JUNE 3, 1975

A-252 TRADE WITH SOVIET BLOC, JUNE 6, 1975

A-253 FRENCH FOREIGN EXCHANGE HOLDINGS, JUNE 6, 1975.
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